

**THE DETERMINANTS OF CORPORATE SOCIAL DISCLOSURE
IN THE ANNUAL REPORTS OF MALAYSIAN CONSTRUCTION
COMPANIES: AN APPLICATION OF STAKEHOLDER THEORY**

By

ABDULMUNAEM .S. M. GEMBRI

**Thesis Submitted in Fulfillment of the Requirements for the Degree of Doctor of
Philosophy**

April 2013

ACKNOWLEDGEMENT

First, I would like to thanks Allah for His continuous mercy and love that enabled me to complete this Phd study, all glory is to Him.

I would like to the opportunity to express my sincere appreciation to my supervisor Associate Professor Dr. Mohd Wira Mohd Shafiei, for his invaluable guidance, advice, patience, and continuous encouragement throughout this study. He was always supportive, committed and enthusiastic throughout the whole research and thesis writing. I am thankful to him for introducing me to different aspects of the academic life.

I gratefully acknowledge the Libyan Ministry of Higher Education for the funding received through their PhD scholarship. I am also grateful to the School of Housing Planning and Building at Universiti Sains Malaysia for giving me this chance to study for a Doctorate.

Finally, and certainly by all means not least, my warm special acknowledgement also goes to my mother and my wife for their support, understanding and encouragement throughout the Ph.D study. I thank Allah for my precious kids, Zeyad, Moad, Rashad and Jadd, who have provide me inspiration to complete this thesis.

TABLE OF CONTENTS

Acknowledgements	ii
Table of Contents	iii
List of Figures	ix
List of Tables	xi
List of Abbreviations	xiii
Abstrak	xiv
Abstract	xv

CHAPTER 1- INTRODUCTION

1.1	Introduction	1
1.2	Research Background	1
1.3	Research Problem	8
1.4	Research Questions	9
1.5	Research Aims and Objectives	10
1.6	Significance of the Study	11
1.7	Expected Contributions	13
1.8	Scope of the Study	14
1.9	Thesis Organization	15
1.10	Chapter Conclusion	16

CHAPTER 2- LITERATURE REVIEW

2.1	Introduction	17
2.2	Corporate Social Disclosure	17

2.3	Benefits of Corporate Social Disclosure	22
2.4	Corporate Social Disclosure in Malaysia	24
2.5	Corporate Social Disclosure and Construction Industry	26
2.6	Research in Corporate Social Disclosure Area	30
2.6.1	International Perspective	31
2.6.2	Malaysian Perspective	37
2.7	Theories of Corporate Social Disclosure	43
2.7.1	Legitimacy Theory	44
2.7.2	Stakeholder Theory	46
2.8	Ullmann's (1985) Framework	50
2.8.1	Stakeholder Power	53
2.8.1.1	Creditor Power	54
2.8.1.2	Investor Power	54
2.8.1.3	Employee Power	56
2.8.2	Strategic Posture	56
2.8.2.1	Corporate Social Responsibility Committee	58
2.8.2.2	Corporate Governance Practices	59
2.8.3	Economic Performance	62
2.9	The Control Variable (Firm Size)	63
2.10	Theoretical Framework	64
2.11	Hypotheses Development	65
2.11.1	Stakeholder Power	66
2.11.1.1	Creditor Power	67
2.11.1.2	Investor Power	68
2.11.1.3	Employee Power	70

2.11.2	Strategic Posture	71
2.11.2.1	Corporate Social Responsibility Committee	71
2.11.2.2	Corporate Governance Practices	72
2.11.3	Economic Performance	76
2.12	Chapter Conclusion	78
CHAPTER 3- RESEARCH METHODOLOGY		
3.1	Introduction	79
3.2	Research Design	79
3.2.1	Content Analysis	80
3.2.2	Pilot study	84
3.3	Measurement of Dependent Variable	87
3.3.1	The Quantity of Disclosure	87
3.3.2	The Quality of Disclosure	89
3.4	Measurement of Independent Variables	94
3.4.1	Stakeholder Power	94
3.4.1.1	Creditor Power	95
3.4.1.2	Investor Power	96
3.4.1.3	Employee Power	97
3.4.2	Strategic Posture	98
3.4.2.1	Corporate Social Responsibility Committee	99
3.4.2.2	Corporate Governance Practices	99
3.4.3	Economic Performance	101
3.5	Measurement of The Control Variable- Firm Size	102
3.6	Sample Selection	103

3.6.1	Data Collection and Source	104
3.6.2	Annual Report	105
3.6.3	Annual Report Coding	106
3.6.4	Categories of Corporate Social Disclosure	108
3.7	Data Analysis Techniques	111
3.7.1	Descriptive Statistics	111
3.7.2	Correlation Analysis	112
3.7.3	Regression Model and Analysis	113
3.8	Chapter Conclusion	113

CHAPTER 4- DATA AND ANALYSIS

4.1	Introduction	114
4.2	Descriptive Statistics	114
4.2.1	Inspection Data	115
4.2.2	Sample Profile	115
4.2.3	Descriptive Analysis- Dependent Variables	116
4.2.3.1	Descriptive Statistics- The Quantity of CSD	116
4.2.3.2	Descriptive Statistics- The Quality of CSD	122
4.2.3.3	Descriptive Statistics- The Dimensions of Quality	124
4.2.4	Descriptive Statistics- Independent Variables	127
4.2.4.1	Descriptive Statistics- Continuous Variables	127
4.2.4.2	Descriptive Statistics- Dichotomous Variables	128
4.2.5	The Test of Reliability	130
4.3	Assumptions Testing	131
4.3.1	Normality	132

4.3.2	Linearity	135
4.3.3	Multicollinearity	136
4.3.4	Homoscedasticity	137
4.4	Correlation Results	139
4.5	Regression Analysis	144
4.5.1	Hypotheses Testing	144
4.5.2	Model Specification	144
4.5.3	Regression Analysis Results	146
4.5.3.1	The Quantity of Corporate Social Disclosure	147
4.5.3.2	The Quality of Corporate Social Disclosure	151
4.6	Discussion on the Hypotheses	154
4.6.1	Discussion on the Hypotheses Related to the Quantity of CSD	154
4.6.2	Discussion on the Hypotheses Related to the Quality of CSD	160
4.7	Chapter Conclusion	163
CHAPTER 5- CONCLUSIONS, LIMITATIONS AND FUTURE RESEARCH		
5.1	Introduction	165
5.2	Conclusion	165
5.3	The Fundamental Contributions of the Study	168
5.3.1	Contributions to Theory	168
5.3.2	Contributions to Practice	169
5.4	Limitations	169
5.5	Suggestion for Future Research	170
5.6	Chapter Conclusion	172

REFERENCES

173

APPENDICES

Appendix 1:	The Sample List	202
Appendix 2:	The Check List	205
Appendix 3:	The Decision Rules	209
Appendix 4:	The Pilot Study's Companies List	213
Appendix 5:	The Results of Pilot Study	214
Appendix 6:	The Modified Check List	220
Appendix 7:	The Recording Sheet	224
Appendix 8:	Comparative Studies of Ullmann's Framework	231
Appendix 9:	Descriptive Analysis – Quality of CSD	234
Appendix 10:	Descriptive Analysis – Quality of CSD	237
Appendix 11:	Descriptive Analysis of Independent-Control Variables	243
Appendix 12:	Reliability Analysis of the Checklist	248
Appendix 13:	Normality of Quantity, Quality of CSD-Un-transformation	254
Appendix 14:	Residual Plot Testing of Linearity, Homoscedasticity	256
Appendix 15:	Correlation Analysis of the Independent Variables with Quantity of CSD- Un-transformed	262
Appendix 16:	Correlation Analysis of the Independent Variables with Quality of CSD- Un-transformed	263
Appendix 17:	Correlation Analysis of the Independent Variables with Quantity of CSD- transformed	264
Appendix 18:	Correlation Analysis of the Independent Variables with Quality of CSD- transformed	265

Appendix 19: Regression Analysis- First Model	266
Appendix 20: Regression Analysis- Second Model	271

LIST OF FIGURE

Figure 2.1	The Core Values of CSR	28
Figure 2.2	The Model of Stakeholder	48
Figure 2.3	Theoretical Framework	65
Figure 3.1	Content Analysis' Studies	82
Figure 3.2	Ranking of the Quality of Disclosure	91
Figure 3.3	Examples from the Annual Reports	92
Figure 3.4	The Categories' of CSD	110

LIST OF TABLES

Table 3.1	Reliability Coefficient for the Checklist Themes	87
Table 3.2	Examples of the Quality of CSD Score Calculation	94
Table 4.1	Sample Companies Used for Empirical Tests	116
Table 4.2	Descriptive Statistics for Quantity Disclosure	117
Table 4.3	Descriptive Statistics of Quantity of CSD-incidence	119
Table 4.4	Descriptive Statistics for Quantity of CSD-sentences	120
Table 4.5	Descriptive Statistics for Quality of CSD	123
Table 4.6	Descriptive Statistics of Quality Category	124
Table 4.7	Descriptive Statistics for Independent-Continuous Variables	128
Table 4.8	Descriptive Statistics for Independent-Dichotomous Variables	129
Table 4.9	The Reliability of CSD Checklist-All Sample	131
Table 4.10	Test of the Normality Assumption	132
Table 4.11	Test of Normality of the Continuous Variables	135
Table 4.12	Correlation Matrix among Independent Variables	136
Table 4.13	Test of Multicollinearity	137
Table 4.14	Test of Homogeneity	138
Table 4.15	Test of Homogeneity of Quality	138
Table 4.16	Descriptive Statistics of Continuous Variables-Transformed	139
Table 4.17	Correlation Results-Quantity of CSD	140
Table 4.18	Correlation Results-Quality of CSD	142
Table 4.19	Variables' Code Names and Descriptions	145
Table 4.20	Regression Results- Quantity of Disclosure	148
Table 4.21	The Impact of Independent Variables on the Quantity of CSD	150

Table 4.22	Regression Results-Quality of CSD	151
Table 4.23	The Impact of Independent Variables on the Quality of CSD	153
Table 4.24	Summary of Hypothese and Key Findings-Quantity of CSD	154
Table 4.25	Summary of Hypotheses and Key Findings-Quality of CSD	160

LIST OF ABBREVIATIONS

ACCA	Association Certified Chartered Accounting
ACF	Australian Conservation Foundation
ADC	Audit Committee
AROA	Average Return On Assets
CEP	The US Council of Economic Priorities
CI	Community Involvement
CIDB	Construction Industry Development Board
CRP	Creditor Power
CSD	Corporate Social Disclosure
CSR	Corporate Social Responsibility
CSRC	Corporate Social Responsibility Committee
CSRD	Corporate Social Responsibility Disclosure
ENG	Energy
ENV	Environment
EP	Employee Power
FMCA	Federation of Malaysia Consumer Association
FS	Foreign Shareholders
GDP	Gross Domestic Product
GRI	Global Reporting Initiative
GS	Government Shareholders
HR	Human Resources
INDs	Independent Non-executive Directors
ISO	International Standard Organization

KPMG	Klynved Peat Marwick Goerdeler
MWF	World Wide Fund of Nature
NEW	New Economic Model
NGOs	Non- Government Organizations
ORS	Other Social Disclosure
OWS	Ownership Structure
PCG	Putrajaya Committee for Government Listed Companies
PLCs	Public Listed Companies
PR	Products
RM	Ringgit Malaysia
SPSS	Statistical Package for Social Sciences
UK	United Kingdom
USA	United State of America

**PENENTU-PENENTU PENZAHIRAN SOSIAL KORPORAT DI DALAM
LAPORAN TAHUNAN SYARIKAT-SYARIKAT PEMBINAAN MALAYSIA:
PENGUNAAN TEORI PIHAK BERKEPENTINGAN**

ABSTRAK

Kajian ini bertujuan menyelidik perkara yang menyebabkan syarikat pembinaan Malaysia yang tersenarai secara sukarela menyediakan maklumat sosial dan persekitaran dalam laporan tahunan mereka. Objektif pertama kajian ini adalah menyelidik aras pendedahan sosial korporat dalam laporan tahunan syarikat yang tersenarai di dalam Malaysia pada tahun 2010. Objektif kedua adalah pendekatan rangka kerja pemegang taruh Ullmann (1985) yang mengandungi tiga dimensi iaitu, kuasa pemegang taruh, perawakan strategi; dan prestasi ekonomi yang menentukan kemampuan bagi menerangkan sebab pendedahan maklumat sosial dan persekitaran masyarakat dalam laporan tahunan mereka. Syarikat tanpa laporan tahunan 2010 akan digugurkan dari senarai syarikat dalam Bursa Malaysia bagi menyediakan contoh untuk 107 syarikat. Data dikumpulkan bagi mengukur komponen pendedahan sosial korporat dan proksi bagi mengaplikasikan pendekatan Ullmann yang bersifat tiga dimensi. Kajian ini mengkaji aras pendedahan sosial korporat berkaitan dengan kuasa pemegang taruh pemiutang diwakili oleh pulangan ekuiti; kuasa pemegang taruh pelabur diwakili oleh pemegang taruh kerajaan dan pemegang taruh asing dan pemegang taruh pekerja yang diwakili oleh pekerja yang berkongsi pemilikan. Bukti menunjukkan bahawa kedua-dua pemegang taruh pemiutang dan kerajaan (mengukur kuasa pelabur) dan pekerja yang berkongsi pemilikan juga memberi kuasa kepada pemegang taruh berkaitan dengan kuantiti dan kualiti pendedahan sosial korporat. Ironinya, pemegang taruh asing merupakan proksi yang tidak penting dan tidak termasuk dalam aras pendedahan korporat sosial dalam laporan tahunan syarikat. Keputusan menunjukkan syarikat yang mempamerkan perawakan strategi yang aktif dalam isu-isu sosial dan persekitaran memperlihatkan kuantiti dan kualiti maklumat korporat sosial berbanding syarikat yang kurang aktif dalam isu tersebut. Syarikat menggaji mekanisme korporat yang kuat lebih mudah berurusan dengan pemegang taruh mereka melalui pendedahan maklumat sosial dan persekitaran. Jawatankuasa tanggungjawab sosial korporat dalam struktur lembaga syarikat adalah bukti perawakan strategi tetapi hanya dalam kuantiti pendedahan sosial korporat. Syarikat yang menunjukkan prestasi ekonomi yang tinggi memperlihatkan jumlah maklumat sosial korporat yang lebih daripada syarikat yang mempunyai prestasi rendah dalam ekonomi. Prestasi ekonomi diwakili oleh pulangan aset yang sederhana. Keputusan menunjukkan bahawa syarikat besar secara jelasnya dikaitkan dengan pendedahan korporat syarikat yang tinggi.

THE DETERMINANTS OF CORPORATE SOCIAL DISCLOSURE IN THE ANNUAL REPORTS OF MALAYSIAN CONSTRUCTION COMPANIES: AN APPLICATION OF STAKEHOLDER THEORY

ABSTRACT

This study seeks to investigate the motivations that make the Malaysian construction publicly listed companies voluntarily provide social and environmental information in their annual reports. The first objective of this research is to examine the level of corporate social disclosures present in 2010 Malaysian construction listed companies' annual reports. The second objective, is the application of Ullmann's (1985) stakeholder framework, which contains three dimensions namely stakeholder power; strategic posture; and economic performance, to determine their ability to explain why these companies disclose voluntarily social and environmental information in their annual reports. Companies without a 2010 annual reports are omitted from the construction companies listed on the Bursa Malaysia to create a sample of 107 companies. Data was collected to measure components of corporate social disclosure, and proxies for Ullmann's three-dimensional stakeholder framework were applied. This study examines the level of corporate social disclosures in relation to creditor stakeholder power represented by return on equity; investors' stakeholder power represented by government shareholders and foreign shareholders and employee stakeholder power represented by employee share ownership. Evidence shows that both creditor and government shareholders (measures investor power), and employee share ownership does empower stakeholder pressure regarding the quantity and quality of corporate social disclosures. In contrast, foreign shareholders were an insignificant proxy and did not serve in explaining the level of corporate social disclosure in the companies' annual report. The results also find that companies displaying a more active strategic posture towards social and environmental issues disclose higher quantity and quality of corporate social disclosure information than companies displaying a less active posture to these issues. Companies employ strong corporate governance mechanisms to, strategically, manage their relationship with their stakeholders through disclosing voluntary social and environmental information. The presence of corporate social responsibility committee in the companies' board structure is also evidence of strategic posture, but only in quantity of corporate social disclosure. Companies with higher economic performance disclose a greater amount of corporate social disclosure information than, companies with lower economic performance. Economic performance represented by average return on assets. The results showed that larger companies are significantly associated with higher levels of corporate social disclosures.

CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter provides the background of the study by highlighting the basic information of the research issues, symptoms of the problem, and the motivations to undertake research. The research problem has been identified from the discussion in the background of the study. A separate section identified the objectives of the study including the aim and objectives. The research questions, which are answered throughout the research, have been articulated with respect to the research problem. Indications are given as to how the research questions are addressed in the study followed by the significance of the study. The key contributions of the study have been specified, and the chapter ends with a briefing on the organization of all the remaining chapters.

1.2 Research Background

Companies today are under increasing pressure from their stakeholders to be more responsible regarding the way they deal with their impact on the environment, and the place where they operate (Hackston & Milne, 1996). The need for corporate social responsibility disclosure has gained momentum as social consciousness towards the importance of social and environmental information disclosure became more apparent (Sutantoputra, 2009). As a result, there is substantial evidence that many companies have provided more attention to their stakeholders by disclosing information about their responsibility towards the product and customer preference, employee interest, community activities and environmental impact (Amran & Siti-

Nabiha, 2009; Chen, 2011; Eljido-Ten, 2004; Guthrie & Parker, 1990; Mezher, Tabbara, & Al-Hosany, 2010; Trotman & Bradley, 1981).

In the field of social and environmental responsibility research, corporate social responsibility disclosure (CSRD) is a key issue (Adams and Mc Nicholas, 2007). Consequently, a certain amount of disclosure of information is now deemed a part of a companies' responsibility strategy towards their stakeholders' demands and expectations to conform about how their operations should be conducted (Deegan & Soltys, 2007; Gray, Dey, Owen, Evans, & Zadek, 1997; Prado-Lorenzo, Rodríguez-Domínguez, Gallego-Álvarez, & García-Sánchez, 2009). However, previous studies indicated that the level of corporate social disclosure being presented in the companies' annual reports has varied over time, regions and economics' development status (Guthrie & Parker, 1990). This variation is attributed to the absence of compulsory reporting requirement in many countries, then it is expected that companies practice a fair amount of independence in choosing to disclose what is favorable to their firms' strategy (Sutantoputra, 2009).

Despite the growing interest in corporate social responsibility and its related corporate social disclosure, Kotonen (2009) has argued that, there is still no single "international standard" definition of corporate social responsibility. Therefore, there is not a commonly accepted definition of corporate social disclosure. One of the most widely used definitions of corporate social disclosure referred to "the process of communicating the social and environmental effects of organizations' economic actions to particular interest group within society and to society at large" (Gray, Owen, & Adams, 1996, p. 3). In addition, "social and environmental disclosure can

typically be thought of as comprising information relating to company's activities, aspirations and public image with regard to environmental, community, employee and consumer issues" (Gray, Javad, Power, & Sinclair, 2001, p. 329). While the various definitions of corporate social responsibility and corporate social disclosures are discussed in the literature. It is yet to be decided whether corporate social disclosure is voluntary or mandatory (Deegan, 2002). Orij (2010) argue that, "the search for motives for corporate social disclosure still has to provide consistent proof of any clear determinant".(Orij, 2010, p. 868).

As companies increasingly recognize the general duties of responsibility implied by their stakeholders' expectations and demands, the role of corporate social responsibility disclosure takes on increasing importance as a mechanism through which such duties of responsibility may be discharged (Gray, Owen and Maunders, 1998). Sen, Bhattacharya and Korschun (2006) state that, corporate social disclosure plays a key role in enhancing an organization's innovation capability, and improving its image. It also creates a competitive advantage with its partners, reduces increase operational efficiency (Freeman, 1984). Additionally, Gray, Kouhy and Lavers (1995a), highlighted that, corporate social disclosure (CSD) can play a pivotal role in reinforcing the democratic structure, emphasizing the social, ethical and environmental aspects.

This significant role played by CSD as a key strategic asset of a company has increased the number of interested academics in conducting a number of studies towards corporate social disclosure in both theoretical and practical approaches (Branco & Rodrigues, 2008; O'Dwyer, 2002; Reverte, 2009). Although, there is a

substantial amount of research that examines corporate social disclosure conducted in developed countries (Einhorn & Ziv, 2008; Guthrie & Parker, 1990; Hackston & Milne, 1996; Kotonen, 2009; Lang & Lundholm, 1993; O'Dwyer, 2002; Prado-Lorenzo, et al., 2009; Tilt, 1994; Trotman & Bradley, 1981; Wiseman, 1982a). In contrast, the number of studies on CSD of companies operating within developing countries, or on the external pressures being exerted on such companies by stakeholders and communities in relation to their social and environmental practice accountability, both theoretically and empirically, were quite limited (Amran & Siti-Nabiha, 2009; Belal, 2001; Eljido-Ten, 2004; Haniffa & Cooke, 2005).

Although disclosure of social responsibility issues is gradually being increased in developed countries, it is lagging in developing countries. However, earlier studies revealed that CSD in Malaysia is still low (Abd Rahman, Zain, & Al-Haj, 2011; Mustaffa & Tamoi, 2006). As globalization continues to transform the average balance of power between developed and developing countries, companies from emerging economics are vigorously challenging the superiority of their international counterparts. Given this situation, scholars and researchers have consistently called for more research in the area of corporate social responsibility, the growing influence of emerging markets and their leading companies (Arevalo & Aravind, 2011). Such studies will play a vital role in broadening people's perception of corporate social responsibility disclosure under different economic, social and cultural conditions (Gao, 2011).

The interest in CSD can be traced back to the 1970s, when the previous researchers studied corporate social disclosure in different aspects such as community

involvement, environmental issues, employee concerns and energy policies (Mathews, 1997). During this period, there were political, social and economic pressures on companies; this was reflected in the range of social stakeholder groups who demanded greater corporate accountability with reference to social problems such as minority rights, ecology, safety and health, education, (Gray, Owen, & Maunders, 1988). Corporate social disclosure is an essential tool for companies to communicate with their stakeholders, and an opportunity for companies to establish their responses to these increased concerns about their social and environmental activities (Sutantoputra, 2009).

Substantial academic studies over the past four decades have researched CSD (Alsaeed, 2006; Brown & Degan, 1998; Eljido-Ten, 2004, 2005; Gray, et al., 2001; Haniffa & Cooke, 2005; Khlif & Souissi, 2010; Prado-Lorenzo, et al., 2009; Roberts, 1992; Ullmann, 1985; Wiseman, 1982a). Corporate social disclosure deals with the disclosure of the information concerned with the relationship between a company and its physical and social environments (Deegan & Rankin, 1996). This disclosure of information illustrates a company's response to its stakeholder expectations, which often includes employee, environment and energy, product and customer, community involvement and workplace related information (Deegan & Blomquist, 2006; Deegan & Soltys, 2007; Gray, et al., 1997; Gray, Kouhy, & Lavers, 1995a; Hackston & Milne, 1996).

Several previous studies in the literature have examined the level of CSD practices in terms of the relationship to specific corporate characteristics in annual reports (Hossain & Hammami, 2009), environmental disclosure (Ali Fekrat, Inclan, &

Petroni, 1996; Cormier, Gordon, & Magnan, 2004; Eljido-Ten, 2004, 2005; Gray, et al., 2001; Gray, et al., 1995a; Halme & Huse, 1997; Hyrslova, Hajek, & 2006; Villiers & van Staden, 2011). Meanwhile, other researchers assessed the needs and principles of social performance reports (Marcuccio & Steccolini, 2009; Oeyono, Samy, & Bampton, 2011). In addition, several other studies examined the relationship between corporate social disclosure and financial performance (Brine, Brown, & Hackett, 2006; Crisóstomo, de Souza Freire, & de Vasconcellos, 2011).

The level of social and environmental disclosure in developing countries, including emerging nations such as Malaysia, China and Singapore is remarkably low (Amran & Devi, 2008; Belal & Cooper, 2011). According to Champers, Chapple, Moon and Sullivan's (2003) study, the mean level of disclosure of leading companies among seven countries that were studied (India, South Korea, Thailand, Singapore, Malaysia, Indonesia, and Philippines) shows a percentage of 41%, which is less than half of the score for the UK (98%), and Japan (96%). Therefore, it is obvious that most of the social and environmental information in developing countries is still undisclosed. Belal and Cooper (2011) identified two reasons behind this non-disclosure; the first is the lack of understanding of the issues with top management, and the second one is the lack of capacity to deal with these issues by corporations.

Nevertheless, most of the earlier studies examining the level of corporate social responsibility disclosure in various industries and do not address the level of a specific industry. As reported by the Global Reporting Initiative (GRI, 2002) "the GRI recognizes the limits of a one-size-fits-all approach and the importance of capturing the unique set of issues faced by different industry sectors". Thus,

assessing the level of corporate social responsibility disclosure of companies becomes limited without some alignment to the concerns, issues related to the specific industry context. Thus, to achieve the purpose of the study, the chosen industry in this study is the Malaysian construction industry.

Construction is a significant service industry that can contribute towards social and environmental responsibility. As stated by Kohash, Thomas and Al-Oun (2011), construction companies can play a catalytic role in changing the corporate behavior of other industries towards social responsibility management and disclosure. Unfortunately, construction sector lags in CSD research (Chien & Barthorpe, 2010). The unique social and environmental issues of the construction industry provide an essential niche area for intensive research that has not been covered well in previous studies; therefore, examining the level of social responsibility disclosure of the Malaysian construction companies is a timely attempt to fill in the gap.

This study attempts to specify the determinants of the level of CSD made by the construction companies in Malaysia, especially the annual reports, which are used by the companies to disclose information to stakeholders. This study will provide insight into how the effect of certain factors namely; stakeholder power, strategic posture and economic performance on the companies' decision regarding their social and environmental activities. The construction industry has recently had become the focus of environmentalists and governments to organize its social and environmental activities more effectively (Teo & Loosemore, 2011). That focus puts pressure on the construction industry companies to deal not only with an effective and efficient constructing service, but also with effective management of their business (Price &

Newson, 2003). As part of the management, companies need to pay attention to preserving a healthy environment within the organization, its work sites and in the external environment (Petrovic-Lazarevic, 2008).

1.3 Research Problem

The body of knowledge on corporate social responsibility has been growing remarkably over the past four decades (Deegan, 2002). However, recent studies of corporate disclosure practices have suggested that corporate social responsibility disclosure within developing countries is typically limited, and requires a standard to disclose the information to various stakeholders and society at large. In addition, few studies, in developing countries compared with developed countries, have determined the factors behind the information that reported in the companies' annual reports to fulfill the stakeholders' expectations.

However, the various studies examining the level of corporate social responsibility disclosure are common and do not address industry-specific issues (Abd Rahman, et al., 2011; Abu-Baker & Naser., 2000; Amran & Devi, 2007; Tsang, 1998). Therefore, examining the level of social and environmental disclosure of company's annual reports, without some alignment to concerns and issues, which is related to an industry context, becomes useless. The corporate social disclosure awareness level in Malaysia has increased in the last few years (Abdul-Hamid & Atan, 2011; Elijido-Ten, 2004). Therefore, pressure from a variety of sources on both private and public sector, particularly those which are directly included in environmentally sensitive industries, to be responsible toward its activities impact on society is expected (Elijido-Ten, 2004).

This development at the level of awareness could be related to the international trend, which is calling for greater accountability and social and environmental responsiveness in both public and private companies (Nelson, 2004). Thus, it was decided that this study is to determine the factors that affect the level of information about social and environmental disclosure, which is relevant to Malaysian construction companies' stakeholders. Furthermore, the study is to examine the level of corporate social disclosure in the annual reports of Malaysian construction companies, the dimensions of Ullmann's (1985) stakeholder model (stakeholder power, strategic posture and economic performance) will be examined, which are likely to affect the level of corporate social disclosure in these companies' annual reports.

1.4 Research Questions

Corporate social responsibility disclosure is a concept whereby firms consider the interests of society by taking responsibility to disclose the impact of their activities on employees, suppliers, shareholders, customers, communities and other stakeholders. Sekaran and Bougie (2009) define a research problem as any situation where a gap exists between the actual and the desired state.

The increasing number of companies disclosing social and environmental information has created an important area to study. Many studies have raised the issue of social and environmental reporting (Belal, 2001), but few have explored the real motivation for it (O'Dwyer, 2002). The reality shows that corporate social responsibility disclosure is increasing, but the factors that drive the corporate social disclosure development are still uncovered particularly in the Malaysian context.

The research questions to be addressed in the present study are:

- To what extent do the Malaysian construction companies disclose voluntary social and environmental information in their annual reports?
- What is the relationship between the stakeholder power, strategic posture, and economic performance with the level of corporate social disclosure?

The research questions are to guide the selection of the methodological approach that best addresses the research problem, and accomplishes the research objectives. Answering the research questions provides an understanding of the Malaysian construction companies' strategy and motivation towards corporate social and environmental reporting and related disclosure practices. It also helps to determine which factors are consistent within the Malaysian context. Finally, the findings will provide some evidence on the applicability of stakeholder theory as an explanatory theory of the current corporate social disclosure phenomenon.

1.5 Research Aims and Objectives

This study aims to enhance the body of knowledge by providing empirical evidence on the potential factors that may affect the level of corporate social disclosure in a developing market in general, and in Malaysia in particular. It also will enrich the literature on the application of the stakeholder theory by adopting Ullmann's (1985) three-dimensional model that covers the stakeholder power, strategic posture and economic performance. Ullmann (1985) argued that, the basic concept of stakeholder theory is the successful use of social disclosure as a means by which companies manage all relationships that they have with their stakeholders, and with

the external environment. The research aim, therefore, is supported by the following objectives:

- To assess the level of corporate social disclosure of construction public listed companies in Malaysia.
- To examine whether the stakeholder power, strategic posture and economic performance influence the level of corporate social disclosure.

1.6 Significance of the Study

As a developing country, the Malaysian government is striving to bring social responsibility practices into the companies' strategies to ensure that Malaysia becomes a developed country by the year 2020. In order to obtain a developed nation status by the year 2020, the Malaysian government, by funding companies to encourage them invest in social responsibility programs (CIDB, 2009). Malaysia has been chosen as the focus of this study not only because it is a developing country with an emerging capital market but also because of its non-mandatory corporate social responsibility disclosure subject, which is similar to most Asian countries (Elijido-Ten, 2004; Nowland, 2008).

Compared to developed countries, research studies considering the area of corporate social responsibility are still developing, and the analytical instruments required to assess the business status of corporate social responsibility disclosure are still relatively new. However, corporate social responsibility has witnessed growth in recent years. In contrast, a few companies in the context of developing countries

have extensive experience in the area of corporate social responsibility compared to the context of developed countries. Although many studies examined whether the information disclosed by companies had fulfilled the stakeholders' demands, as presented in stakeholder theory, a few studies have been tried to examine the determinants of corporate social disclosure.

Testing the stakeholder theory framework proposed by Ullmann (1985) will help to uncover the determinants of corporate social disclosure (Elijido-Ten, 2004), also will reveal whether it is also applicable in the Malaysian context. Most previous studies have applied this stakeholder theory in developed countries such as the US (Roberts, 1992). The results of this study will provide evidence as to whether this stakeholder theory is held in developing countries such as Malaysia. Currently, the level of social and environmental disclosure in Malaysia is still low (Abd Rahman, et al., 2011). Therefore, this research is essential to understand the determinants of corporate social disclosure of the construction industry in Malaysia. The findings will help decision makers in the construction industry to improve their companies' level of disclosure. The findings may also assist Malaysian researchers, which will lead to the relevant authorities taking necessary steps to develop and improve the social responsibility practices of local construction companies.

Thus, there is a need to unpack the context in which companies are being asked to be more corporate social disclosure-active. In this regard, we are drawn to Gray et al. (1995) suggestion that corporate social disclosure can be interpreted by using the framework of stakeholder perspective. Hence, this study is attempting to investigate

the determinants underlying the social disclosure of companies operating within a developing country, namely Malaysian public construction listed companies.

1.7 Expected Contributions

This study is expected to make numbers of contributions to the literature in the area of corporate social responsibility disclosure. As commented by Dowell, Hart and Yeung (2000) that, the majority of empirical works about the topic has been completed using samples of corporations from Europe and USA. We consider the concentration of research in well-developed companies as an additional factor in the determination of caution against generalizations of the findings and a motivator for further research in other markets. Besides economic development, the institutional structure may also interfere with corporate social disclosure (Dobers & Halme, 2009).

Therefore, the first expected significant contribution of this study to the literature on corporate social disclosure studies in emerging and transitional economies in general, to gain a better understanding about whether stakeholder theory can be used to determine the motivations behind the companies' decision to disclose information about their social and environmental activities expectations, which is still limited and has received little attention.

Second, this study is also expected to contribute to the studies of corporate social responsibility disclosure area in a specific industry, as prior corporate social responsibility studies generally examined corporate social disclosure by various industries (Abdul-Hamid & Atan, 2011). This study also will help to identify some

patterns of social and environmental practices, which are related to this particular industry (Griffin & Mahon, 1997). Therefore, this study will be expected to provide insights into corporate social disclosures that relate to this particular industry, which is the Malaysian construction industry, and enhance the understanding of corporate social disclosure practices of an emerging economy in East Asia.

Third, this study is also expected to contribute to the corporate social responsibility disclosure by testing Ullmann's stakeholder theory framework in the Malaysian context. As such, the results of the study could provide evidence that testing Ullmann's stakeholder theory model, which suggests that stakeholder power, strategic posture and economic performance present the determinants of the level of corporate social disclosure.

Fourth, there are no known studies, which have examined the relationship between the Ullmann's stakeholder concept models and the level of corporate social disclosure in a specific industry. In addition, the proposed research is expected to add to the broader social responsibility literature by examining the quantity and quality of the social and environmental disclosure in the annual reports. Previous studies have investigated the amount of the level of disclosure without examining the quality of disclosure (Abd Rahman, et al., 2011).

1.8 Scope of the Study

The focus of this study is to assess the level of social responsibility disclosure provided by Malaysian construction listed companies. Construction companies, in this study context, are construction business entities involved in construction service.

The lack of studies in the literature related to corporate social responsibility disclosure in the construction industry emphasizes the need for a more research on this industry.

This research is intended to explore, and understand the relationships of factors influencing the level of corporate social responsibility disclosure of the Malaysian construction companies' annual reports during the year of 2010. Owing to, the lack of sufficient single comprehensive theory, the factors that are behind a company's commitment to provide some information about their social and environmental activities to meet their stakeholder demands and expectations, became difficult to determine. This research focuses on an examination of the factors that affect the Malaysian construction industry's disclosure of information on their social and environmental activities. This research also seeks to infer that stakeholder theory is working in the developing country context. Therefore, this study will attempt to assess the level of disclosure that was made by the Malaysian construction companies by adopting the Ullmann's (1985) stakeholder framework model.

1.9 Thesis Organization

This present study is organized in five chapters. In chapter one, the introduction of the core research problem was presented. It gives details about the background of the study, research questions to be answered, research objectives to be achieved and scope of study, as well as the outline of the thesis. Chapter two reviews the literature about the corporate social disclosure. Chapter two also, presents and defines the concepts that will be used throughout this study. A theoretical framework will be presented together with the hypotheses of the present study. Chapter three gives

details of the data collection methods adopted and how the relevant instruments were designed and applied in the field. It also elaborates on the analysis of quantitative data as well as the approach utilized in analyzing parametric data. Chapter four gives the results of the study, and analysis and discussions of results obtained from the theoretical model. Finally, chapter five concludes with details about key findings and suggestions. It also provides recommendations for future research.

1.10 Chapter Conclusion

Chapter one introduced the background of the CSD as area to be studied. The gaps that exist in the area of study motivate researchers to get involved in the endeavor. Specifically, this study assesses the level of corporate social disclosure in specific industry. This study applied stakeholder theory as the explanatory theory due to the gap in the theoretical perspective in explaining CSD. This chapter presents the problem of study, research questions to be answered, research objectives to be achieved, and the scope of the study. This chapter also discussed the significance and contribution of this study. The next chapter discusses the literature, and theories related to the CSD.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

In recent years, there has been a growing trend in corporate social disclosure (CSD) within the business sphere (Azim, Ahmed, & D'Netto, 2011). Companies need to be accountable and act responsibly toward their stakeholders, by undertaking social responsibility reporting in their strategies in order to improve and expand the responsibility of companies beyond the traditional role of providing financial information, and making money for their shareholders (Oeyono, et al., 2011; Siregar & Bachtiar, 2010).

This chapter is organized into eleven main sections followed by a conclusion. Section 2.2 presents background on CSD and includes definitions. Section 2.3 covers the benefits of CSD. Section 2.4 presents the status of CSR in Malaysia. Section 2.5 covers the CSR in the construction industry. Section 2.6 presents the prior studies which relate to this study. Section 2.7 discusses two theoretical explanations relating to the motivations for CSD (legitimacy theory and stakeholder theory), and section 2.8 presents the Ullmann's framework. Section 2.9 presents the firm size as a control variable in this study. Section 2.10 presents the framework of the study. Section 2.11 covers the hypotheses development. Section 2.12 concludes the chapter.

2.2 Corporate Social Disclosure

Currently, the traditional role of company's corporate reporting is being extended not only to financial information, but also to social, political and ecological

environmental information (Abd Rahman, et al., 2011; Azim, et al., 2011). According to Gray (2012), such an extension, is predicated on the premise that companies do have wider responsibilities than just making money for their shareholders. The need for corporate social responsibility disclosure has gained momentum as social consciousness towards the importance of social and environmental information disclosure became more apparent (Sutantoputra, 2009). As a result, there is substantial evidence that many companies have provided more attention to their stakeholders by disclosing information about their responsibility towards the product and customer preference, employee interest, community activities and environmental impact (Amran & Siti-Nabiha, 2009; Guthrie & Parker, 1990; Kotonen, 2009; Mezher, et al., 2010; Trotman & Bradley, 1981).

Corporate social disclosures have been the subject of much academic research since the mid-1970 (Branco & Rodrigues, 2008; Chen, 2011; O'Dwyer, 2002; Reverte, 2009). The popularity of this strand of research may be attributed to the apparently increasing awareness within the business community of the power key stakeholders relate to socially and environmentally responsible corporate behavior (Deegan & Soltys, 2007). However, earlier studies indicated that is the amount of corporate social disclosure presented in the annual report is varied over time, regions and economics' development status (Guthrie & Parker, 1990; Hackston & Milne, 1996; Trotman & Bradley, 1981). These studies attribute that to the lack of universally accepted theoretical framework or universal notion of CSD (Gray, et al., 1995a). The wide variations in reporting practices could make it difficult for the report users to rely solely on the information provided to make an informed judgment and decisions about the company.

Corporate social disclosure was defined by a various number of researchers. The CSD is often referred to as social disclosure; corporate social reporting; corporate social responsibility (Hackston and Milne, 1996). Corporate social disclosure is primarily voluntary in nature, To Mathews (1993) by companies CSD means “a voluntary disclosure of information, both qualitative and quantitative, to inform or affect their stakeholders” (Mathews, 1993, p. 64). According to Guthrie and Mathews (1985, as cited by Hackston & Milne, 1996, p. 78), corporate social disclosure has defined as "the provision of financial and non-financial information relating to a company's interaction with its physical and social environment".

Deegan and Soltys (2007) provide a detailed description of the corporate social disclosure by broader aspects of corporate responsibility. They have defined CSD as “the provision of information about the performance of a company in relation to its interaction with its physical and social environment, and includes but is not limited to, the level of support for developing countries; level of support for community projects; interaction with the local community; health and safety information; training employment and training programs; and environmental performance”. (Deegan & Soltys, 2007, p. 1265).

Murray, Sinclair, Power, and Gray (2006) describe social and environmental disclosure as it is “the process of providing the social and environmental effects of company’s economic actions for specific interested groups (stakeholders), and to society at large”.(Murray, et al., 2006, p. 119). That is, it involves extending the responsibility of companies than simply to make money for their shareholders. Such an extension is predicated upon the premise that companies do have wider

responsibilities. The focus on the process aspect of CSD is also evident in Van Der Laan (2009), who call CSD as a process or use of stakeholder communication.

Previous definitions focused more on the content of the CSD than process. Elkington (1998) suggests that the CSD should include economic, social and environmental issues. In addition, Perks (1993) found CSD as the disclosure of costs and benefits that may or may not be quantifiable in money terms, resulting from the economic activities of the organization, and substantially borne by the community at large, or other organizational stakeholders. By adopting a similar process and content focus, KPMG (2005) notes that CSD is about communicating the company's environmental, social and economic performance in an integrated manner.

In Malaysia, the public now appears to be more concerned with the adverse impact of businesses on society (Mustaffa & Tamoi, 2006). In fact, the recent development of various NGOs and environmental pressure groups in Malaysia suggests that stakeholders are concerned with the manner in which businesses are responding to social responsibility concerns (Ahmad, Sulaiman, & Siswantoro, 2003; Amran & Devi, 2008). As a result, there are a multitude of concerns and demands being voiced by the government in Malaysian public-listed companies to become more socially and environmentally responsible, and to communicate their CSR issues and actions through their annual reports.

According to the Bursa Malaysia's framework, corporate social responsibility is defined "as open and transparent business practices that are based on ethical values and respect for the community, employees, the environment, shareholders and other

stakeholders”.(Bursa Malaysia, 2006). This framework was designed to deliver sustainable value to society at large. The corporate social responsibility reporting provides information to the public regarding company's activities with community, environment, its employees, its consumer and energy consumption. Corporate social disclosure is categorized as a voluntary disclosure since it is not required by the stock exchange rules and regulations, and the companies Act in Malaysia (Said, Zainuddin, & Haron, 2009).

However, because of the limited mandatory reporting regulations in many countries, it is expected that corporate companies selectively practice disclosure of social and environmental information in their annual reports that are favorable to their corporate profile (Deegan & Rankin, 1996; Kent & Chan, 2003). Meanwhile, others provide inadequate social and environmental information in their annual reports (Branco & Rodrigues, 2006). Hasnah, Sofri, Sharon, and Ishak (2006) stated that, In Malaysia Corporate social disclosures have been categorized as discretionary disclosures since any financial disclosure policy; accounting standards, the stock exchange rules and regulations, and the Companies Act in Malaysia do not require it. The range of social issues disclosed tends to be the expression of the Malaysian Government's preferences, or the specific obligations that companies have (Othman. & Thani., 2010) .

As such, corporate social responsibility reporting, which is becoming increasingly prevalent, is creating pressure on companies not only to disclose their corporate social responsibility record, but also develop it (Cormier, et al., 2004). Corporate social disclosure provides information to the public regarding companies' activities

release including details of the physical environment, energy, human resource, products and community involvement. The CSD can be perceived as a significant and related information source for Unemployment; safety in the workplace; the level of employee training; balance of payments; regional imbalances; income distribution; environmental pollution; problems of the neglect of the beauty and aesthetics of the country; energy and natural resource depletion; energy shortage; Consumers/product related problems (Hackston & Milne, 1996).

Corporate social disclosure may have the potential to strengthen stakeholder relationships as reporting promotes corporate transparency and instills greater confidence and trust amongst stakeholders (Said, et al., 2009). It means that companies are compelled, besides offering profits, to integrate the social-political environment into their strategic steps, to manage their ethical and philanthropic responsibility, as well as their activities (Khemir, 2010). This study is focusing particularly on voluntary disclosure information on dedicated company annual reports. In essence, CSD is about communicating the social and environmental impacts of companies' activities with their stakeholders.

2.3 Benefits of Corporate Social Disclosure

There is a growing concern within the business community in recent years of the significance of key stakeholders relate to socially, environmentally and ethically responsible behavior by the companies (Gallego-Álvarez, Rodríguez-Domínguez, & García-Sánchez, 2011). As companies increasingly recognize the obvious duties of responsibility implied by their stakeholder's expectations, the role of corporate social disclosure takes on increasing importance as a process through which such duties of

responsibility may be discharged (Gray, et al., 1997). Companies have been realized that the CSD can be a practical tool for managing their environmental legitimacy (Aerts & Cormier, 2009), responding to stakeholders, or public relations, and building an excellent reputation (Gao, 2011).

Idowu and Towler (2004) have pointed out that there are considerable benefits that corporations of the twenty-first century can achieve when their stakeholders as being socially responsible. It is often argued that, companies report about their social and environmental issues, to create and obtain good reputations, and maintain the support of particular groups (Deegan & Blomquist, 2006). Besides, an excellent reputation has been identified as enhancing consumer perceptions of product quality (Grewal, Krishnan, Baker, & Borin, 1998), allowing easier access to resources (Beatty & Ritter, 1986), and improving recruitment and retention, increasing productivity, raising employee morale (Brammer & Pavelin, 2006).

Corporate social disclosure also plays a significant role in other, different aspects. It has been asserted by (Adams & Zutshi, 2004; Gray, et al., 1995a; Gray, et al., 1988; O'Dwyer, 2002; Owen, Swift, & Hunt, 2001; Patten, 1990), that there are a number of perceived benefits, which a company may obtain from implementing CSR initiatives. These might include enhancing corporate transparency, developing corporate image, increasing customer loyalty, supporting communities, improving business performance, and providing useful information for investment decision making (Knox, Maklan, & French, 2005).

Existing studies show that CSD can also be seen as a key player in providing an incentive for internal development, building a positive impact on share prices and assisting in staving off potential regulatory pressure to be more socially responsible (Azim, et al., 2011; KPMG, 2008). In addition, CSD has also been seen as a mechanism by which companies may seek to manage their stakeholders in order to achieve their support and respect. Moreover, evidence has been provided (Azim, et al., 2011; Toms, Hasseldine, & Massoud, 2007) that by providing information related to social and environmental issues in the companies' annual reports contributes significantly to the improving of their position and gain competitive advantage.

2.4 Corporate Social Disclosure in Malaysia

Malaysia has demonstrated an increasing awareness of Corporate Social Responsibility activities in recent years. For example, the non-governmental organizations and the professional accounting bodies (e.g. the Federation of Malaysia Consumer Association (FMCA), Consumer Association of Penang and World Wide Fund for Nature (WWF) Malaysia, Business Ethics Malaysia and Association Certified Chartered Accountant (ACCA), have played a key role in promoting CSR awareness, and initiatives among public companies (Abdul Hamud & Altan, 2011).

The issues of CSR in Malaysia stand in line with international trends, increased in recent years. The Malaysian government's efforts in focusing on CSR have resulted in the development of new frameworks for implementation of CSR practices of the public-listed companies (Othman, Darus, & Arshad, 2011). The most significant of these is still the "The Silver Book", published by the Putrajaya Committee for